



SOWELL GRAY  
ROBINSON

Litigation + Business

FRANK R. ELLERBE, III

DIRECT 803 227.1112 DIRECT FAX 803 744.1556

fellerbe@sowellgray.com

February 28, 2017

VIA ELECTRONIC FILING

Ms. Jocelyn Boyd, Chief Clerk/Administrator  
Public Service Commission of South Carolina  
Synergy Business Park, Saluda Building  
101 Executive Center Drive  
Columbia, South Carolina 29210

Re: Application of Kiawah Island Utility, Incorporated for Adjustment of Rates  
Docket No. 2016-222-WS

Dear Ms. Boyd:

Enclosed for filing please find the Direct Testimony of Craig Weaver on behalf of the Town of Kiawah Island in the referenced docket. We are serving the same on the parties of record. Please contact me if you have any questions.

Yours truly,

Frank R. Ellerbe, III

FRE:tch

Enclosure

via email w/enc: Charles L. A. Terreni, Esquire  
Scott Elliott, Esquire  
Jeffrey M. Nelson, Esquire  
Shannon B. Hudson, Esquire  
Florence P. Belser, Esquire  
M. Dawes Cooke, Jr., Esquire  
John W. Fletcher, Esquire  
Dwayne Green, Esquire

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2016-222-WS**

**In the Matter of** )  
**Application of Kiawah Island Utility, Inc.** )  
**for Adjustment of Rates and Charges and** )  
**Modifications to Certain Terms and** )  
**Conditions for the Provision of Water and** )  
**Sewer Service** )  
\_\_\_\_\_ )

**DIRECT TESTIMONY**  
**OF**  
**CRAIG WEAVER**  
**ON BEHALF OF TOWN OF KIAWAH ISLAND**

1   **Q   PLEASE STATE YOUR NAME, CURRENT POSITION, AND BUSINESS**  
2       **ADDRESS.**

3   A   Craig Weaver, Mayor, Town of Kiawah Island, 21 Beachwalker Drive, Kiawah Island,  
4       South Carolina.

5   **Q   PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
6       **BACKGROUND.**

7   A   I received undergraduate and graduate degrees from Michigan State University and then  
8       worked for 25 years in the energy industry, after which I worked for Best Buy as Vice  
9       President for Human Resources and then for several years with the financial services  
10      company UBS. I retired in 2006 and moved to Kiawah Island where my wife and I built  
11      a home.

12   **Q.   PLEASE DESCRIBE YOUR COMMUNITY INVOLVEMENT SINCE YOUR**  
13       **MOVE TO KIAWAH.**

14   A.   I have had the opportunity to be involved with a number of community associations  
15       during my time in Kiawah. I served as Chair of the Board of the Kiawah Island  
16       Community Association for three years. I was also appointed to a two-year term as a  
17       Commissioner of the St. John's Fire District.

18       I was elected to the Town Council of Kiawah Island in 2014 and then was elected mayor  
19       in December 2016.

20   **Q   WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21   A   The purpose of my testimony is to set out the Town's position on the rate increase request  
22       submitted by Kiawah Island Utility.

1 **Q. PLEASE GIVE THE COMMISSIONERS AN OVERVIEW OF THE TOWN'S**  
2 **POSITION ON THE KIU RATE REQUEST.**

3 **A.** The Town is very concerned about the size of the proposed increase. KIU is asking for a  
4 25.57% overall increase in rates and we don't see how that can be justified.

5 We are also concerned that there be a close examination of the costs of the construction  
6 of the second water line. While the Town has generally been supportive of the need for  
7 the additional line, we are also aware that there were construction problems that led to  
8 significantly higher costs. We have been assured that those costs are not being passed on  
9 to ratepayers, but we hope that the audit by the ORS will confirm that the costs that are  
10 allowed are only those that are appropriate.

11 We also think that the operating margin that KIU is seeking is excessive during a time of  
12 low interest rates and generally low returns on most investments. Southwest Water  
13 purchased KIU with an expectation that it was making a low risk but reliable investment  
14 – there is no reason that it should receive a recovery on its investment based on an  
15 operating margin in excess of 15%.

16 **Q. WOULD YOU EXPLAIN YOUR CONCERNS ABOUT THE CONSTRUCTION**  
17 **COSTS OF THE SECOND WATER LINE.**

18 **A.** In its last rate case (Docket No. 2011-317-W/S) KIU gave this Commission an estimated  
19 cost for the second water line of \$6.5 million. That estimate was provided in the context  
20 of a request that it be approved in advance (later withdrawn) and was therefore  
21 presumably a researched and well supported figure. We understand that the actual cost of  
22 the second water line has turned out to be more than \$9 million. This dramatic increase

1 gives us cause for concern, especially since KIU has offered no explanation for the  
2 increase in its application nor its testimony. We hope the Commission will insist on an  
3 explanation to make sure that KIU ratepayers are not paying for a mismanaged project  
4 that cost more than it should have.

5 **Q. HAVE YOU HAD A CHANCE TO REVIEW THE RESULTS OF THE ORS**  
6 **REVIEW OF THE KIU OPERATIONS?**

7 A. I have had a brief opportunity to review the ORS review of the KIU operations and the  
8 proposed ORS adjustments to the KIU pro forma income and expense exhibits. I am  
9 generally impressed with the work done by the ORS staff and we will be working with  
10 them to better understand some of the issues. One issue identified in the ORS audit that  
11 we are interested in is the management fee that KIU pays SouthWest Water.

12 **Q. PLEASE EXPLAIN YOUR CONCERNS ABOUT THE MANAGEMENT FEES.**

13 A. KIU has proposed an increase in management fees of \$350,000 over the fee of  
14 approximately \$100,000 that KIU paid during the test year to its parent Kiawah Resort  
15 Associates. SouthWest Water claimed that its acquisition of KIU would be beneficial to  
16 ratepayers and the Town because of its corporate expertise in operating water and sewer  
17 systems in California, Texas and Alabama. That was certainly the message conveyed to  
18 this Commission in the May 11, 2016 ex parte briefing by KIU and SouthWest Water.  
19 The implication of the claims made by SouthWest Water was that ratepayers would see  
20 cost savings from the more efficient operations of a larger corporate parent with more in-  
21 house expertise. It is therefore very surprising to us that KIU is proposing to pay its new

1 parent four and a half times more annually in management fees that it paid its previous  
2 parent.

3 **Q. WHAT ACTION DO YOU PROPOSE THAT THE COMMISSION TAKE**  
4 **CONCERNING THE PROPOSED MANAGEMENT FEE INCREASE?**

5 A. We believe that the entire proposed adjustment should be disallowed. The management  
6 fee is a transaction with an affiliate and KIU should be required to demonstrate that it is  
7 reasonable and prudent. KIU has not met that burden. There has been no appreciable  
8 improvement in service that would justify any increase in management fees, and certainly  
9 not an increase of the magnitude that KIU is proposing. The fact that KRA was able to  
10 provide the same management service for so much less indicates that the proposed  
11 adjustment is an example of SouthWest Water cashing in on its acquisition of KIU. We  
12 think KIU ratepayers should not be expected to cover these higher management fees.

13 **Q. WOULD YOU EXPLAIN THE TOWN'S POSITION ON AN APPROPRIATE**  
14 **OPERATING MARGIN?**

15 A. We understand that in the typical operating margin case the ORS recommends an  
16 operating margin in a range of 10% to 15%. There are several reasons why we think that  
17 in this case an operating margin at the low end of that range is appropriate. In the last  
18 KIU rate case this Commission approved an operating margin of 13.75%. At that time  
19 KIU was considering significant uncertainties in connection with the construction of the  
20 second water line. Now the line has been constructed and its costs are being recovered in  
21 this case and KIU faces virtually no uncertainties. To the contrary, KIU has a well-  
22 established service area that produces a steady and predictable flow of revenue and is an

1 attractive investment. Under these circumstances, and during this period of low interest  
2 rates, we believe that it is appropriate that KIU's rates be set based on an operating  
3 margin of 10%.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A. Yes. I do want to thank the Commission for coming to Kiawah Island for the night  
6 hearing. Residents of the Town appreciated it very much. We also thank you for  
7 considering our views as expressed in this testimony.

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**CERTIFICATE OF SERVICE**

This is to certify that I, Toni C. Hawkins, a paralegal with the law firm of Sowell Gray Robinson Stepp & Laffitte, LLC, have this day caused to be served upon the person(s) named below the Direct Testimony of Craig Weaver, Mayor, Town of Kiawah Island, in the foregoing matter by electronic mail to the following addresses:

Charles L.A. Terreni, Esquire  
[charles.terreni@terrenilaw.com](mailto:charles.terreni@terrenilaw.com)

Scott Elliott, Esquire  
[selliott@elliottlaw.com](mailto:selliott@elliottlaw.com)

Jeffrey M. Nelson, Esquire  
[jnelson@regstaff.sc.gov](mailto:jnelson@regstaff.sc.gov)

M. Dawes Cooke, Jr., Esquire  
[mdc@barnwell-whaley.com](mailto:mdc@barnwell-whaley.com)

Shannon B. Hudson, Esquire  
[shudson@regstaff.sc.gov](mailto:shudson@regstaff.sc.gov)

John W. Fletcher, Esquire  
[jfletcher@barnwell-whaley.com](mailto:jfletcher@barnwell-whaley.com)

Florence P. Belser, Esquire  
[fbelser@regstaff.sc.gov](mailto:fbelser@regstaff.sc.gov)

Dated this 28<sup>th</sup> day of February, 2017.



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